

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
ANNUAL INVESTMENT REPORT  
YEAR ENDED JUNE 30, 2000



CalPERS  
REFLECTING CALIFORNIA'S TREASURES  
PEOPLE - PRODUCTS - POTENTIAL



The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund and the second largest in the world, with assets at June 30, 2000 of \$172.5 billion.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.2 million people and more than 2,400 public employers. The System also operates eight offices located in San Francisco, Glendale, Orange County, Sacramento, San Bernardino, San Diego, Mountain View, and Fresno.

CalPERS is led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex-officio members.

Our membership consists of 863,781 active and inactive members from the State, school districts, and local public agencies, and 355,690 retirees, beneficiaries, and survivors.

Established by legislation in 1931, the System became operational in 1932 for State employees only. In 1939, other public agencies were allowed to contract with CalPERS to provide retirement benefits for their employees. We began administering health benefits to State employees in 1962 under the Public Employees' Medical and Hospital Care Act. Local public agencies joined in our health program on a contract basis five years later.



**California Public Employees'  
Retirement System**

*Annual Investment Report  
Year Ended June 30, 2000*



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# CalPERS

REFLECTING CALIFORNIA'S TREASURES

PEOPLE - PRODUCTS - POTENTIAL







## CHIEF INVESTMENT OFFICER'S MESSAGE

On behalf of the California Public Employees' Retirement System's Investment Operations, I am pleased to present reports of our summary of investments owned, California investments and investment performance for the period ended June 30, 2000.

This data was compiled by our Investment Operations staff, CalPERS pension consultant Wilshire Associates, and our master custodian State Street Bank & Trust Company. It is presented in accordance with statutes found in California Public Employees' Retirement Law.

We earned a 10.5 percent return on our investments for the one-year period ended June 30, 2000, marking the sixth straight year of double-digit returns. Over the five-year period ended June 30, we earned a 15.6 percent return, better than most multi-billion public pension funds according to a report compiled by the Trust Universe Comparison Service (TUCS).

Our total assets were valued at more than \$172 billion, growing by approximately \$13 billion during the year, after contributions and benefit payments.

Our performance is the culmination of superior investment and risk management. At the same time, we recognize that the investment climate over the last

five years has been one of the most favorable in history. Inevitably, the markets will someday under-perform expectations. Our recent returns will better enable us to weather any lean years.

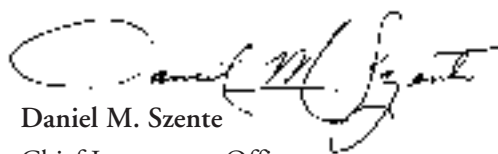
Our performance was well above the 8.25 percent assumed actuarial rate of return needed to pay

retirement benefits, led by strong gains in our equity investments. Despite some volatility in the market, CalPERS U.S. stock investments returned 8.3 percent, matching the benchmark return of the Wilshire 2500.

At the end of the year, CalPERS held approximately \$111 billion in U.S. and international stocks, \$45 billion in U.S. and international bonds, \$9 billion in real estate and \$7 billion in privately held investments.

We continue to invest in the State of California, providing a strong economic boost for California's growth. At the end of the year, we had \$16.6 billion invested in California real estate, housing, and stocks and bonds in corporations that make California their home.

Sincerely,



Daniel M. Szente  
Chief Investment Officer



# ANNUAL INVESTMENT REPORT (Year Ended June 30, 2000)

## CalPERS BOARD OF ADMINISTRATION

William Dale Crist , President  
Robert F. Carlson, Vice President  
Philip Angelides  
Willie L. Brown, Jr.  
Kathleen Connell  
Rob Feckner  
Sean Harrigan  
Michael Flaherman  
Marty Morgenstern  
Mike Quevedo, Jr.  
William Rosenberg  
Joseph A. Thomas  
Charles P. Valdes

## INVESTMENT COMMITTEE

All members of the Board serve on the Investment Committee. Michael Flaherman serves as the Committee Chair and Sean Harrigan is Vice Chair. This Committee reviews investment transactions, the work of staff, external managers and consultants, and establishes investment policy, strategy and asset allocation.

## CalPERS EXECUTIVE STAFF

James E. Burton  
*Chief Executive Officer*  
James H. Gomez  
*Deputy Executive Officer*  
Robert Aguallo  
*Assistant Executive Officer*  
*Investment Operations*  
Vincent P. Brown  
*Assistant Executive Officer*  
*Financial & Administrative Services*  
Allen D. Feezor  
*Assistant Executive Officer*  
*Health Benefit Services*

Kayla J. Gillan  
*General Counsel*  
Barbara Hegdal  
*Assistant Executive Officer*  
*Member & Benefit Services*  
Patricia K. Macht  
*Chief, Office of Public Affairs*  
Daniel M. Szent  
*Chief Investment Officer*  
*Investment Office*  
Ron Seeling  
*Chief Actuary*  
*Actuarial & Employer Services*  
Robert D. Walton  
*Assistant Executive Officer*  
*Governmental Affairs, Planning & Research*

## SENIOR INVESTMENT STAFF

Denise Arend  
*Chief*  
*Investment Operations*  
Mark Anson  
*Senior Investment Officer*  
*Global Public Equity*  
Curtis Ishii  
*Senior Investment Officer*  
*Fixed Income*  
Barry Gonder  
*Senior Investment Officer*  
*Alternative Investment Management*  
Michael McCook  
*Senior Investment Officer*  
*Real Estate*

## CONSULTANTS

Wilshire Associates  
*Pension Consultant*  
Pension Consulting Alliance/Kenneth Leventhal & Co.  
*Real Estate Consultant*  
Hamilton Lane Advisors, Inc.  
Pacific Corporate Advisors, Inc.  
*Alternative Investment Management Program*

## **CUSTODIAN**

State Street Bank And Trust Company

## **MAINSTREAM DOMESTIC ACTIVE EQUITY MANAGERS**

The Boston Company Asset Management, L.L.C.  
Brown Capital Management, Inc.  
Geewax, Terker & Company  
Goldman Sachs Asset Management  
Oak Associates, Ltd.  
Oppenheimer Capital  
The Putnam Advisory Company, Inc.

## **MAINSTREAM DOMESTIC PASSIVE EQUITY**

Dimensional Fund Advisors, Inc.

## **CORPORATE GOVERNANCE — DOMESTIC EQUITY**

Relational Investors, LLC

## **INTERNATIONAL FIXED INCOME MANAGERS**

Baring International Investment, Ltd.  
Fiduciary Trust Company International  
Julius Baer Investment Management, Inc.  
Merrill Lynch Mercury Asset Management

## **ACTIVE INTERNATIONAL EQUITY MANAGERS**

Deutsche Asset Management  
Oechsle International Advisors, L.P.  
Schroder Capital Management International, Inc.  
ValueQuest/TA, L.L.C.

## **ACTIVE INTERNATIONAL EQUITY MANAGERS — PACIFIC BASIN**

Newport Pacific Management, Inc.  
Nomura Asset Management U.S.A. Inc.

## **ACTIVE INTERNATIONAL EQUITY MANAGERS — EUROPE**

Paribas Asset Management, Inc.

## **PASSIVE INTERNATIONAL EQUITY MANAGERS**

State Street Global Advisors

## **CORPORATE GOVERNANCE — INTERNATIONAL EQUITY**

Active Value Capital, L.P.  
Hermes Lens Asset Management

## **CURRENCY OVERLAY MANAGERS**

Credit Suisse Asset Management  
Pareto Partners  
State Street Global Advisors

## **MANAGER DEVELOPMENT PROGRAM — INTERNATIONAL EQUITY**

Arrowstreet Capital, L.P.

## **REAL ESTATE ADVISORS & PARTNERS**

AMB Institutional Realty Advisors, Inc.  
Amresco Advisors, Inc.  
Bankers Trust Co.  
Burnham Pacific Retail Properties  
CNL Net Lease Investors, L.P.  
Compass Management  
Commonwealth Pacific  
E&Y Kenneth Leventhal  
GE Capital Investment Advisors, Inc.  
General Investment & Development Advisors, Inc.  
Hancock Timber Resource Group  
Hearthstone Housing Partners, L.P.  
Hines  
Institutional Housing Partners, L.P.  
Kennedy Associates Real Estate Counsel, Inc.  
LaSalle Advisors Capital Management, Inc.  
Lend Lease Real Estate Investments, Inc.  
MacFarlane Partners  
Newland Capital Advisors  
Olympic Realty Advisors  
PICAL, L.P.  
Prudential Home Building Investors, Inc.  
RREEF  
Residential R.E. Partners, L.P.  
Sentinel Real Estate Corporation  
SSR Realty Advisors  
The Newland Group, Inc.  
Westmark Realty Advisors  
Wells Fargo Housing Advisors, Inc.  
Weyerhaeuser Corporation  
W.P. Carey & Co., Inc.

## SUMMARY OF INVESTMENTS

(As of June 30, 2000)

Category	Book Value	Market Value	% of Investments at Market Value
<b>Cash Equivalents &amp; Net Receivables/Payables</b>			
<b>Domestic Cash Equivalents</b>			
<b>Internal Domestic Cash Equivalents</b>			
Cash Equivalents	\$2,881,630,640	\$2,881,630,640	1.67%
State Pooled Money Investment Fund	140,337,000	140,337,000	0.08%
<b>Total Internal Domestic Cash Equivalents</b>	<b>\$3,021,967,640</b>	<b>\$3,021,967,640</b>	<b>1.75%</b>
<b>External Domestic Cash Equivalents</b>	<b>\$37,959,497</b>	<b>\$37,959,497</b>	<b>0.02%</b>
<b>Total Domestic Cash Equivalents</b>	<b>\$3,059,927,137</b>	<b>\$3,059,927,137</b>	<b>1.77%</b>
<b>External International Currency</b>	<b>\$63,682,510</b>	<b>\$64,308,955</b>	<b>0.04%</b>
<b>Net Investment Receivables/Payables</b>	<b>(\$1,126,365,225)</b>	<b>(\$1,126,365,225)</b>	<b>-0.65%</b>
<b>Total Cash Equivalents &amp; Net Receivables/Payables</b>	<b>\$1,997,244,422</b>	<b>\$1,997,870,867</b>	<b>1.16%</b>
<b>Fixed Income</b>			
<b>Domestic Fixed Income</b>			
<b>Internal Domestic Fixed Income</b>			
<b>U.S. Treasuries &amp; Other Fixed Income Securities</b>			
U.S. Treasuries & Agencies	\$5,204,255,129	\$5,183,547,732	3.01%
Inflation Protected Securities	615,051,114	614,019,506	0.36%
Corporate			
Asset-Backed	2,059,539,780	2,056,006,117	1.19%
High Yield	644,158,931	556,788,219	0.32%
Private	228,766,230	236,351,251	0.14%
Public	11,570,947,732	11,225,161,866	6.51%
Sovereign	52,791,350	53,457,865	0.03%
Other Fixed Income	99,962,965	99,906,250	0.06%
International			
U.S. Treasuries & Agencies	66,478,394	63,742,910	0.04%
Public	466,567,816	442,202,436	0.26%
Sovereign	766,402,032	804,698,476	0.47%
<b>Total U.S. Treasuries &amp; Other Fixed Income Securities</b>	<b>\$21,774,921,473</b>	<b>\$21,335,882,628</b>	<b>12.39%</b>
<b>Mortgage-Backed Securities</b>			
CMO	\$9,279,561,431	\$9,115,691,013	5.29%
FHLMC	2,001,711,468	1,890,308,188	1.10%
FNMA	4,032,102,453	3,977,482,512	2.30%
GNMA	10,278,082	10,744,450	0.01%
<b>Total Mortgage-Backed Securities</b>	<b>\$15,323,653,434</b>	<b>\$14,994,226,163</b>	<b>8.70%</b>
<b>Private Mortgages</b>			
Commercial Mortgage Pools	\$126,679,772	\$94,108,443	0.05%
Commercial Whole Loans	934,706,525	947,664,434	0.55%
Single Family Participating Certificates	1,119,741	1,227,863	0.00%
<b>Total Private Mortgages</b>	<b>\$1,062,506,038</b>	<b>\$1,043,000,740</b>	<b>0.60%</b>



## SUMMARY OF INVESTMENTS

(As of June 30, 2000 continued)

Category	Book Value	Market Value	% of Investments at Market Value
<b>Special Investments</b>			
Member Home Loan Programs			
FNMA (Deliverables)	\$838,852,016	\$782,266,527	0.45%
FNMA (Non-Deliverables)	122,698,801	124,564,539	0.07%
GNMA (Fixed)	72,815,686	70,736,023	0.04%
GNMA (Variable)	39,417,028	37,595,587	0.02%
Jumbo	244,665,772	244,849,824	0.14%
CalPERS Member Home Loan Defaulted	1,018,565	1,018,565	0.00%
Retirement Account Loans	50,868,901	50,868,901	0.03%
AFL-CIO HIT	95,116,085	92,254,147	0.05%
Bridge Housing	39,500	39,500	0.00%
Equitable CCMF	33,114,932	33,193,107	0.02%
High Yield-CMBS	90,550,421	87,561,598	0.05%
ULLICO	64,104,963	64,563,380	0.04%
<b>Total Special Investments</b>	<b>\$1,653,262,670</b>	<b>\$1,589,511,698</b>	<b>0.91%</b>
<b>Total Internal Domestic Fixed Income</b>	<b>\$39,814,343,615</b>	<b>\$38,962,621,229</b>	<b>22.60%</b>
<b>External Domestic Fixed Income</b>			
Various Fixed Income	\$15,762,959	\$14,103,706	0.01%
<b>Total External Domestic Fixed Income</b>	<b>\$15,762,959</b>	<b>\$14,103,706</b>	<b>0.01%</b>
<b>Total Domestic Fixed Income</b>	<b>\$39,830,106,574</b>	<b>\$38,976,724,935</b>	<b>22.61%</b>
<b>External International Fixed Income</b>	<b>\$5,165,309,355</b>	<b>\$4,980,926,452</b>	<b>2.89%</b>
<b>Total Fixed Income</b>	<b>\$44,995,415,929</b>	<b>\$43,957,651,387</b>	<b>25.50%</b>
<b>Equity</b>			
<b>Domestic Equity</b>			
<b>Internal Domestic Equity</b>			
<b>Index Fund</b>			
Common Stock	\$17,912,416,397	\$56,888,379,947	32.98%
International	68,912,716	152,084,266	0.09%
Preferred Stock	3,685,362	2,454,235	0.00%
<b>Total Index Fund</b>	<b>\$17,985,014,475</b>	<b>\$57,042,918,448</b>	<b>33.07%</b>
<b>Other Internal Funds</b>			
Common Stock	\$5,441,816,694	\$5,436,536,508	3.15%
International	37,543,221	48,421,028	0.03%
Preferred Stock	214,950	—	0.00%
<b>Total Other Internal Funds</b>	<b>\$5,479,574,865</b>	<b>\$5,484,957,536</b>	<b>3.18%</b>
<b>Convertible Securities</b>			
Bonds	\$356,275,447	\$419,479,222	0.24%
Preferred Stock	281,837,290	264,750,127	0.15%
International	6,000,000	4,356,000	0.00%
<b>Total Convertible Securities</b>	<b>\$644,112,737</b>	<b>\$688,585,349</b>	<b>0.39%</b>
<b>Total Internal Domestic Equity</b>	<b>\$24,108,702,077</b>	<b>\$63,216,461,333</b>	<b>36.64%</b>

## SUMMARY OF INVESTMENTS

(As of June 30, 2000 continued)

Category	Book Value	Market Value	% of Investments at Market Value
<b>External Domestic Equity</b>			
Common Stock	\$8,910,891,176	\$12,247,481,391	7.10%
International	494,186,704	572,190,748	0.33%
Preferred Stock	8,100	2,700	0.00%
<b>Total External Domestic Equity</b>	<b>\$9,405,085,980</b>	<b>\$12,819,674,839</b>	<b>7.43%</b>
<b>Total Domestic Equity</b>	<b>\$33,513,788,057</b>	<b>\$76,036,136,172</b>	<b>44.07%</b>
<b>External International Equity</b>			
Common Stock - Unhedged	\$10,489,017,512	\$17,023,092,953	9.87%
Common Stock - Hedged	12,084,015,685	16,948,183,761	9.83%
Preferred Stock - Hedged	27,146,007	33,395,167	0.02%
Currency Options	16,036,543	7,731,884	0.00%
<b>Total External International Equity</b>	<b>\$22,616,215,747</b>	<b>\$34,012,403,765</b>	<b>19.72%</b>
<b>Alternative Investment Management Program</b>			
Direct Component Investments			
Co-Investments	\$249,651,134	\$243,593,512	0.14%
Direct Investments	72,480,000	—	0.00%
Vehicle Investments	256,536,114	269,790,048	0.16%
Partnership Component Investments			
Domestic	4,643,639,796	6,439,898,659	3.73%
International	197,826,514	182,496,645	0.11%
<b>Total Alternative Investment Management Program</b>	<b>\$5,420,133,558</b>	<b>\$7,135,778,864</b>	<b>4.14%</b>
<b>Management Development Program</b>			
<b>Domestic Equity</b>			
Common Stock	\$764,645	\$729,563	0.00%
International	2,749,918	2,735,230	0.00%
<b>Total Domestic Equity</b>	<b>\$3,514,563</b>	<b>\$3,464,793</b>	<b>0.00%</b>
<b>International Equity</b>			
Common Stock	\$93,734,690	\$98,502,535	0.06%
Preferred Stock	1,430,104	1,473,749	0.00%
<b>Total International Equity</b>	<b>\$95,164,794</b>	<b>\$99,976,284</b>	<b>0.06%</b>
<b>Private Equity</b>	<b>\$2,970,000</b>	<b>\$2,970,000</b>	<b>0.00%</b>
<b>Total Management Development Program</b>	<b>\$101,649,357</b>	<b>\$106,411,077</b>	<b>0.06%</b>
<b>Total Equity</b>	<b>\$61,651,786,719</b>	<b>\$117,290,729,878</b>	<b>67.99%</b>

## SUMMARY OF INVESTMENTS

(As of June 30, 2000 continued)

Category	Book Value	Market Value	% of Investments at Market Value
<b>Real Estate Programs</b>			
<b>Core Real Estate Investments</b>			
Real Estate Equities	\$4,458,036,453	\$4,393,436,154	2.55%
Real Estate Joint Ventures	1,357,983,836	1,260,489,739	0.73%
Commercial Mortgages	62,525,992	64,643,776	0.04%
Sale/Leaseback	35,153,470	35,153,470	0.02%
Other Mortgages/AFL-CIO Building	50,131,384	89,054,709	0.05%
<b>Total Core Real Estate Investments</b>	<b>\$5,963,831,135</b>	<b>\$5,842,777,848</b>	<b>3.39%</b>
<b>Specialized Real Estate Investments</b>			
Single Family Land Acquisition & Development Program	\$79,629,111	\$62,207,441	0.04%
Single Family Housing Program	242,031,022	242,031,022	0.14%
Catellus Common Stock	258,447,271	281,733,750	0.16%
California Urban Investment Program	12,645,557	14,516,173	0.01%
Franchise Finance	124,550,256	139,243,595	0.08%
Active Prees	1,400,000	1,400,000	0.00%
American Newland III	76,001,435	76,001,435	0.04%
Hearthstone MMII Homebuilding	9,874,947	9,874,947	0.01%
IHP Investment Fund III	128,660,101	128,660,101	0.07%
MW Housing Management LLC	10,278,120	10,278,120	0.01%
Olympic Partners	40,153,479	40,153,479	0.02%
Residential Real Estate Partners III LP	18,186,801	18,186,801	0.01%
Wells Fargo Housing Advisor	9,085,306	9,085,306	0.01%
Hotel	38,542,967	37,039,616	0.02%
Kennedy Development	38,252,536	38,252,536	0.02%
Land	10,234,116	9,050,676	0.01%
Security Capital Global Realty	85,000,000	84,176,775	0.05%
Timberland	651,022,576	1,350,443,390	0.78%
Capital Vision Equities - CVE Affordable Housing	6,372,477	6,372,477	0.00%
Real Estate Investment Trusts	786,733,424	833,189,304	0.48%
<b>Total Specialized Real Estate Investments</b>	<b>\$2,627,101,502</b>	<b>\$3,391,896,944</b>	<b>1.96%</b>
<b>Total Real Estate Programs</b>	<b>\$8,590,932,637</b>	<b>\$9,234,674,792</b>	<b>5.35%</b>
<b>Total Investment Value</b>	<b>\$117,235,379,707</b>	<b>\$172,480,926,923</b>	<b>100.00%</b>
<b>Investment in R Street Project</b>	<b>\$11,285,868</b>	<b>\$11,285,868</b>	
<b>Total Investment Value</b>	<b>\$117,246,665,575</b>	<b>\$172,492,212,791</b>	

# PORTFOLIO OF CALIFORNIA INVESTMENTS AT MARKET VALUE (As of June 30, 2000)

Category	California Investments
<b>Real Estate</b>	
<b>Mortgages</b>	
AFL-CIO Housing Investment Trust	\$2.2
California Community Mortgage Fund	33.2
California Community Initiative Fund	—
Commercial (Whole Loans/Mortgage-Backed Securities)	194.6
Member Home Loan Program	292.0
ULLICO	64.6
<b>Total Real Estate Mortgages</b>	<b>\$586.6</b>
<b>Equity</b>	
AFL-CIO Building Investment Trust	\$23.7
Bay Area Real Estate (Catellus)	216.9
CNL Net Lease Program	23.8
CUIP	15.0
Equity	1,325.0
Housing Program	561.0
Infill Investment Partners	6.4
Kennedy	16.9
Timber	—
Security Cap Global	—
<b>Total Real Estate Equity</b>	<b>\$2,188.7</b>
<b>Total Real Estate Mortgages &amp; Equity</b>	<b>\$2,775.3</b>
<b>Equities</b>	
<b>Alternative Investment Management Program</b>	
Direct Component	\$92.0
Partnership Component	1,600.0
Domestic Equity	9,910.1
International Equity	—
<b>Total Equities</b>	<b>\$11,602.1</b>
<b>Total Real Estate &amp; Equities</b>	<b>\$14,377.4</b>
<b>Fixed Income</b>	
<b>Domestic Fixed Income</b>	
Cash Equivalents & Receivables	\$ —
Corporate Bonds	718.2
Member Home Loan Program - FNMA/GNMA	1,254.0
Mortgage Pass-Through CMOs	241.3
Treasury Bonds	—
<b>Total Domestic Fixed Income</b>	<b>\$2,213.5</b>
<b>International Fixed Income</b>	<b>\$ —</b>
<b>Total Fixed Income</b>	<b>\$2,213.5</b>
<b>Total Investments</b>	<b>\$16,590.9</b>

## INVESTMENT PERFORMANCE

### Investment Performance as of June 30, 2000

Wilshire Associates, the Board's pension consultant, prepares a Quarterly Report of Investment Performance for the Fund based on performance calculations made by the Fund's custodian, State Street Bank & Trust Company. The one-year, three-year, and five-year time-weighted rates of return for the year ended June 30, 2000, are:

### CalPERS Portfolio Comparisons

Category	1-Year Return	3-Year Return	5-Year Return	Index	1-Year Return	3-Year Return	5-Year Return
<b>Total Fund</b>	<b>10.5%</b>	<b>14.1%</b>	<b>15.6%</b>	Asset Allocation Policy Index <sup>1</sup>	9.5%	13.6%	15.0%
				Actuarial Rate	8.25%	8.25%	8.25%
				Trust Universe Comparison Service (TUCS) Public Fund Median	9.4%	12.4%	14.7%
				Trust Universe Comparison Service (TUCS) Public Fund Median > \$1 billion	10.4%	13.9%	15.8%
Domestic Equities	8.3%	19.2%	22.7%	PERS Wilshire 2500	8.3%	19.1%	22.7%
				PERS State Street Global			
International Equities	20.1%	11.8%	13.9%	Advisors Custom Index	17.6%	10.7%	12.1%
Alternative Investments	59.9%	33.8%	27.8%	Annual Hurdle Rate	15%	15%	15%
Private Equity	29.3%	32.3%	18.5%	Annual Hurdle Rate	15%	15%	15%
<b>Total Equity <sup>2</sup></b>	<b>13.5%</b>	<b>17.8%</b>	<b>20.5%</b>				
Domestic Fixed Income	3.8%	6.5%	6.8%	Salomon Brothers Large Pension Fund Index	4.2%	6.3%	6.5%
				Salomon Brothers Non-U.S. World Government Bond Index			
International Fixed Income	-0.9%	2.2%	3.4%	(Net Italy Tax)	2.4%	2.7%	1.7%
<b>Total Fixed Income</b>	<b>3.2%</b>	<b>5.9%</b>	<b>6.4%</b>				
Real Estate	8.6%	10.6%	11.0%	NCREIF <sup>3</sup>	11.4%	13.8%	12.1%
Cash Equivalents	5.9%	5.8%	5.8%	90 Day T-Bill	5.2%	5.2%	5.3%

#### Notes:

<sup>1</sup> The Asset Allocation Policy Index return equals the return for each asset class benchmark, weighted at the current target asset allocations.

<sup>2</sup> Includes alternative investments, domestic, international, and private equities.

<sup>3</sup> National Council of Real Estate Investment Fiduciaries, index on a quarter lag.



## A LONG-TERM VISION IN A VOLATILE MARKET

The CalPERS investment portfolio grew by approximately \$13 billion, ending the 1999-00 fiscal year at \$172.5 billion. We earned a 10.5 percent return on investments, marking the sixth straight year of double-digit returns. Over the five-year period ended June 30, 2000, we earned a 15.6 percent return, better than most multi-billion dollar public pension funds, according to data compiled by the Trust Universe Comparison Service (TUCS).

### GROWTH OF INVESTMENT PORTFOLIO AT MARKET VALUE

Five-Year Review;  
Dollars in Billions



This performance was a culmination of superior investment and risk management and was well above the 8.25 percent assumed actuarial rate of return needed to pay retirement benefits. At the same time, we recognize that the investment climate over the last five years has been one of the most favorable in history. Since the markets will someday underperform expectations, our excess returns will better enable us to weather these lean years.

Our investment performance was led by strong gains in our equity investments. Our alternative investment and

private equity portfolios returned 57.8 percent, beating our 15 percent benchmark. International stocks returned 20.1 percent, compared to a benchmark return of 17.6 percent. Despite volatility in the market, our U.S. stock investments returned 8.3 percent, matching the benchmark return of the Wilshire 2500.

Our U.S. bonds gained 3.8 percent, while our international bonds fell slightly, earning a negative 0.9 percent. Our real estate investments earned a 13.2 percent return for the one-year period.

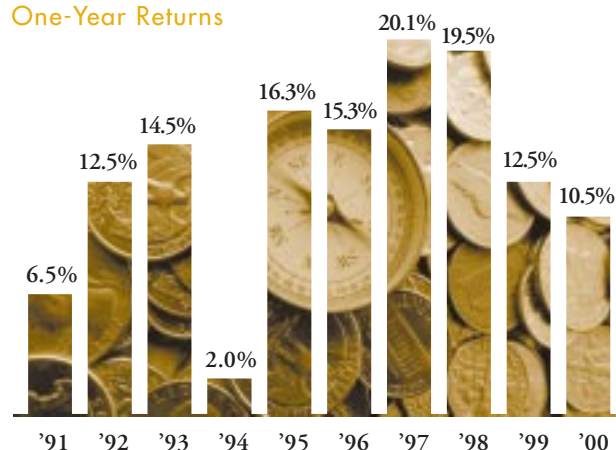
At the end of the year, we held approximately \$110.9 billion in U.S. and international stocks, \$45.2 billion in U.S. and international bonds, \$9.2 billion in real estate, and \$7.2 billion in privately held investments.

## INVESTMENT POLICY AND STRATEGY

The CalPERS Board has investment authority and sole responsibility for the management of assets. The Board decides how the assets are allocated and makes the investment decisions that staff implement on a daily basis. Every month, the Board receives reports on performance, transactions, manager reviews, cash flow estimates, activity deal flow, and partnership and

### TOTAL FUND PERFORMANCE

Ten-Year Review;  
One-Year Returns



## CALPERS ASSET ALLOCATION

As of June 30, 2000

Asset Class	Market Value (\$ Billion)	Current Allocation	Current* Target	Previous Target
Cash Equivalents	-0.1	-0.1%	0.0%	1.0%
Fixed Income				
Domestic	39.5	22.9	24.0	24.0
International	5.8	3.4	4.0	4.0
<b>Total Fixed Income</b>	<b>45.2</b>	<b>26.2</b>	<b>28.0</b>	<b>29.0</b>
Equities				
Domestic	76.2	44.3	39.0	41.0
International	34.7	20.1	19.0	20.0
Alt. Inv./Private Eq.	7.2	4.2	4.0	6.0
<b>Total Equities</b>	<b>118.1</b>	<b>68.6</b>	<b>64.0</b>	<b>65.0</b>
<b>Real Estate</b>	<b>8.9</b>	<b>5.2</b>	<b>8.0</b>	<b>6.0</b>
<b>Total Fund</b>	<b>\$172.2</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* Target allocation approved by CalPERS Board of Administration in May 2000.

### Notes:

Differences between Investment Values above and Investment Values in the Summary of Investments on page 6 are due to differences in reporting methods. The Summary of Investments includes Net Investment Receivables/Payables.

manager selections in order to monitor asset classes. Every two years the Board participates in an asset liability management workshop to review the asset class targets and also meets in a special workshop to analyze factors important in determining the appropriate asset allocation. The health of the global financial markets, future liabilities of the System, and expected future contributions are also analyzed.

In May 2000, the Board adopted a new asset allocation policy. Asset allocation is one of the most important policies and investment strategies set by the Board. It is essentially the starting point and most important component for CalPERS to achieve successful returns on investments. In the long run, it is the way we diversify stocks, bonds, cash, and other investments that is largely responsible for our returns.

## PERFORMANCE BENCHMARKS

Asset Class	Benchmark Description
<b>Fixed Income</b>	
Domestic	Salomon Brothers Large Pension Fund Index
International	Salomon Brothers Non-\$ World Government Index
<b>Equities</b>	
Domestic	Wilshire 2500 Index
International	FT Actuaries/IFC Investable Index
<b>Alternative Investments</b>	15% Annual Hurdle Rate
<b>Real Estate</b>	NCREIF Property Index

The Board reduced our allocation to cash, international equity, and domestic equity in favor of real estate and alternative investments, citing increased expected returns. The System's allocation to alternative investments increased from 4 to 6 percent, and the Fund's exposure to real estate was raised from 6 to 8 percent.

In addition to the asset allocation policy, performance benchmarks were established for the portfolio. Investment policies are formally reviewed through the Board's Investment Policy Subcommittee and receive final approval by the Investment Committee.

## ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

The fiscal year marked several milestones for the CalPERS private equity program. While still young, the AIM Program outperformed its benchmark, earning a 57.8 percent return on investments. Three key factors contributed to the portfolio's success:

- establishing new investment relationships with top investors in the market;
- developing innovative investment vehicles that capitalize on market opportunities; and
- enhancing our investment capability by ensuring that CalPERS is the "Investor of Choice" in the market.

Early in the year, CalPERS targeted direct private equity investments alongside large, sophisticated corporate partners and management teams.

We formed a long-term strategic partnership with San Francisco-based Thomas Weisel Partners to make investments in the growing Internet, technology, and communication industries of the U.S. economy. We committed \$500 million to act as the lead investor in

new funds established by the California investment bank, earmarked an additional \$500 million for future business activity of the firm, and purchased a 10 percent stake in the firm for \$100 million. This was a unique opportunity for CalPERS. Thomas Weisel Partners is one of the last major independent banks focused on some of the fastest-growing Internet, technology, and communication sectors of the economy, giving the firm a competitive advantage in the marketplace. This experience and position helped break new ground in the growth sector, capturing value for both partners.

The development of new innovative investment vehicles also served as a primary focus of the AIM Program. More than \$1.5 billion was committed to the establishment of three investment vehicles that tapped California's economy and leading industries.

We created a CalPERS California Biotechnology Fund, a \$500 million program that capitalizes on the advent and convergence of new technologies in the California biotechnology industry, including genomics, bioinformatics, and therapeutic agents. Under the new program, CalPERS invests in existing biotechnology funds or creates strategic partnerships with pharmaceutical companies, leading universities, and public and private labs to incubate new businesses emerging from research and development.

### A CLOSER LOOK AT AIM

Investments and Investment Commitments  
Dollars in Billions

AIM Programs	Number of Investments	Total \$ Investment
Partnership Program	140	\$11.2
Co-Investments	12	0.3
Direct Investments	3	1.0
Investment Vehicles	7	3.5
<b>Total AIM Program</b>	<b>162</b>	<b>\$16.0</b>

## TOP 10 INTERNAL DOMESTIC EQUITY HOLDINGS

As of June 30, 2000

Company	Shares	Market Value
General Electric Co.	38,841,743	\$ 2,058,612,379
Intel Corporation	13,503,948	1,805,309,048
Microsoft Corporation	20,812,064	1,664,965,120
Cisco Systems Inc.	26,190,380	1,664,726,628
Exxon Mobile Corporation	15,619,492	1,226,130,122
Pfizer Inc.	24,468,719	1,174,498,512
Wal Mart Stores Inc.	17,198,100	991,040,512
Oracle Corporation	11,435,456	961,293,020
Citigroup Inc.	14,562,562	877,394,360
American International Group Inc.	6,868,934	807,099,745

Our second vehicle was the development of a \$500 million California Initiative Fund that targets small businesses and emerging or developing companies in under served urban and rural California communities. We believe the absence of capital in these areas provides tremendous opportunity for CalPERS. Investments are regionally focused to capitalize on California's expected growth rate of approximately six million new residents and two million new households, 70 percent of which is expected to occur in urban areas surrounding Los Angeles, San Francisco, and San Diego.

Our ability to place large amounts of long-term capital with leading-sector companies in high-growth industries spurred the creation of a third vehicle—the CalPERS Corporate Partner Program. This program offers us the ability to proactively seek bright corporate minds with industry vision and experience that will enable us to participate in the best investment opportunities.

The investment activity in the AIM program was assisted by the implementation of key recommendations by McKinsey & Company in April 2000. The Board

directed McKinsey to focus on refining our strategic and organizational approach to the private equity class to improve long-term risk and return performance.

In general, the recommendations reflected the need to evolve the AIM Program as it continues to grow and to ensure that CalPERS becomes an "Investor of Choice." In an environment where capital available to high-performing investment partners is plentiful, gaining access required CalPERS to increase our attractiveness as an investor. CalPERS addressed two key issues to achieve this goal—strengthening our relationship with our investment partners and streamlining the investment process.

## REAL ESTATE

California investments was a main focus of our real estate portfolio during the year. We established a \$200 million Northern California Urban Infill Program that capitalizes on investment opportunities that meet the

growing demands of urban communities. Under the Program, we utilize or upgrade infrastructure, reduce automobile reliance by promoting “walkable” cities and neighborhoods, encourage redevelopment before building on new land, and help reduce suburban sprawl. The redevelopment potential in California’s urban areas offers us the opportunity to reap financial gains, while also strengthening communities.

Commercial real estate and senior housing also topped our agenda. CalPERS, in conjunction with our office real estate advisor, Hines, broke ground on a 31-story, \$200 million high rise in San Francisco’s South of Market district, which has become one of the most desirable locations for Bay Area high-tech companies. The development project is slated to contain 665,000 feet of office space and 5,000 square feet of retail space, and is expected to house as many as 2,500 employees. This marks the first CalPERS investment in a San Francisco office development project and the largest high-rise office building approved in the city in 15 years. In a move that will help spur the California job market, Chase Hambrecht & Quist leased the entire Mission Street building for the investment bank’s new West Coast headquarters.

#### A CLOSER LOOK AT REAL ESTATE

Dollars in Billions

Core Real Estate Portfolio	Market Value
Office	\$2.1
Industrial	1.5
Retail	1.4
Apartment	0.8
<b>Total Core Real Estate</b>	<b>\$5.8</b>
<b>Specialized Real Estate Portfolio</b>	
<i>(housing, timber, California urban infill)</i>	<b>\$2.5</b>
<b>Total Real Estate</b>	<b>\$8.3</b>

In February, we established a senior housing program that will invest in independent living, assisted living, and continuing care retirement community facilities. Independent living facilities are multi-unit residential projects with supportive hospitality services, meals, housekeeping, transportation, and social programs. We also plan to invest in assisted living facilities that provide 24-hour resident services such as bathing, dressing, and eating, and will consider continuing care retirement communities that meet the changing needs of residents from independent living through skilled nursing care.

CalPERS established a strategic plan to invest in agricultural land that capitalizes on the increasing demand for farmland and food. Over the next few years, we intend to work with agricultural investment professionals to develop a portfolio that focuses on permanent crops such as orchards and vineyards that earn their value through long-term growth.

During the year we witnessed the convergence of the real estate and technology industries. We acted quickly to harness the opportunities created by this phenomenon. In November 1999, we made a \$1.4 million investment in PropertyFirst.com, an on-line real estate listing service for commercial and consumer real estate. PropertyFirst.com, headquartered in Alhambra, California, is a web site where real estate investors can view property listings and prospective tenants can look for available space. The site takes information that traditionally has been closely held by brokers and directly places it in the hands of investors, business owners, consumers, property owners, lessors, and lessees. We believe that PropertyFirst.com is at the forefront of the real estate Internet revolution and will create a more efficient market for real estate transactions that will benefit large real estate investors like CalPERS.

We encourage leasing and sales agents to use PropertyFirst.com to market our properties and have provided the company access to our seven core equity



real estate advisors, who manage nearly \$6 billion in apartment, industrial, office, and retail properties.

We reconfirmed our commitment to real estate and technology by developing a \$500 million investment program that invests in companies that develop real estate technology infrastructure and services, and in real estate assets expected to benefit from providing space or services to tenants in high-growth sectors of the economy.

Our goal is to leverage our real estate portfolio and network of contacts in the venture capital industry to generate a variety of investments. The result will be real estate portfolios in technology markets such as the Silicon Valley, Boston's Route 128, and Raleigh Durham's Research Triangle.

## GLOBAL PUBLIC MARKETS

It was a year of successful investment management innovation and growth in our public market investment programs. CalPERS weathered several bouts of market volatility during 1999-00. We remained steadfast in our long-term investment strategy, and kept our portfolio well-diversified to help protect the safety of our members' pensions. Although the market volatility appeared dramatic when it occurred, we fully anticipated these moments in our asset allocation process, and to a lesser extent, looked for bargains in the market.

On the international front, we adopted a new, and more flexible, selection process for hiring external equity and fixed income money managers. Under the new process, we tapped a comprehensive database of managers compiled by our investment staff and consultant, Wilshire Associates. We developed a focus universe of managers based on both qualitative and quantitative

### A CLOSER LOOK AT GLOBAL PUBLIC MARKETS

Dollars in Billions

Investments	Fixed Income	Equities
Domestic	\$39.5	\$76.2
International	5.8	34.7
<b>Total</b>	<b>\$45.3</b>	<b>\$110.9</b>

analysis. From this universe, we targeted a group of firms that either received immediate funding from CalPERS, were placed on a reserve list, or were rejected. This process allows us to capture the most qualified money managers operating in today's global investment industry. It also preserved our public contract competitive negotiation policies, while producing a more effective and complete selection process.

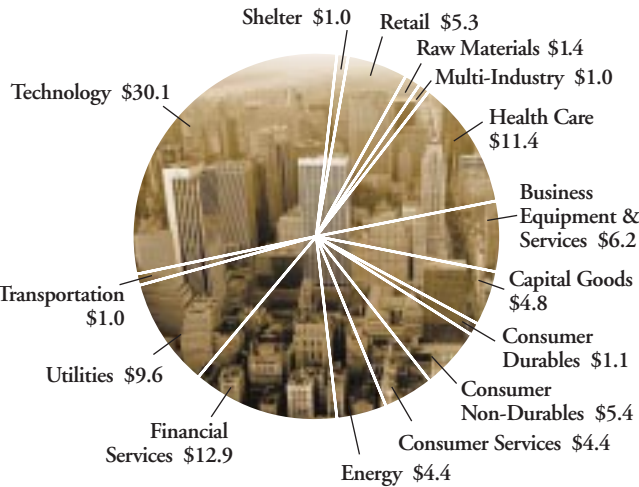
The process was used to hire seven new active international fixed income managers that have a wealth of experience in managing money in the world's markets.

We also selected a manager in our Innovative Manager Development Program that focuses on the development of new and emerging money managers. Arrowstreet Capital, L.P., based in Cambridge, Massachusetts, was chosen to manage \$100 million of our international equity. The firm's operations also received an infusion of \$3 million by CalPERS and our partner in the Program, Progress Highcrest Advisors. With CalPERS assets and capital, Arrowstreet is expected to receive the support and assistance it needs to become a significant player in the institutional marketplace. As Arrowstreet grows and matures, we will realize profits from our equity position and the returns on our international portfolio.

Additionally, we embarked on a project to conduct live securities lending auctions on-line for our \$11.8 billion

# DOMESTIC EQUITY SECTOR DISTRIBUTION OF COMMON STOCK

Internally Managed Portfolios  
Dollars in Billions



Securities Lending Program. The concept joins lenders, borrowers, and brokers in one place via the web. It allows price discovery by utilizing a two-stage bidding process and offering lendable securities in discrete lots. It captures a large centralized pool of data on securities lending performance that will be used for a comprehensive benchmarking system and promises to increase market efficiency by bringing together players from across the world, enabling institutional lenders like CalPERS to retain a larger share of the revenues associated with the lending process.

Securities lending is an investment strategy through which institutional investors lend securities in order to earn incremental income on their portfolios. Agents such as large custodian banks have historically served as go-betweens in securities lending, taking a negotiated cut from the income generated by the lending process.

It's too early to measure the full impact of our idea, but we estimate that CalPERS could earn as much as \$50 million of incremental return annually, with minimal risk, by virtue of the increased efficiency gained through auctions.

# CORPORATE GOVERNANCE

New initiatives and successes marked the 13th year of our U.S. corporate governance program. Over the years the program has evolved and changed, benefiting not

## CalPERS INTERNATIONAL INVESTMENTS Dollars in Billions

Up to \$25 million	
Bermuda	Luxembourg
Cayman Islands	New Zealand
Czechoslovakia	Philippines
Israel	Thailand
\$25 – \$50 million	
Austria	Indonesia
\$50 – \$100 million	
Argentina	Norway
Chile	
\$100 – \$300 million	
Denmark	Portugal
European Currency	Singapore
Greece	South Africa
Ireland	Taiwan
Malaysia	Turkey
\$300 – \$500 million	
Belgium	Korea
Brazil	Mexico
\$500 million – \$1 billion	
Australia	Hong Kong
Finland	Spain
More than \$1 billion	
Canada	Japan
European Currency Unit	Netherlands
France	Sweden
Germany	Switzerland
Italy	United Kingdom

only from lessons learned, but also from the advice and input offered by other investors and corporate officials who share the view that accountability adds economic value.

We have learned that meaningful change cannot be forced—it must be advocated from within. We have watched as members of the corporate community stepped forward and exhibited leadership in pushing their colleagues to change perceptions. In this spirit, we honored a U.S. corporation, a board of directors, a chief executive officer, and an independent director for positive and courageous contributions in corporate governance. During the proxy season, Apple Computer, the Texas Instrument's Board of Directors, Time Warner's Chairman and CEO Gerald M. Levin, and retiring General Motor's Director John G. Smale were the recipients of the CalPERS Corporate Governance Award of Courage. We honored these companies and individuals for their courage and dedication to shareowner interests and to the advancement of good corporate governance. In each area, they represent shining examples of effective governance in Corporate America.

## 2000 CORPORATE GOVERNANCE

### Focus List Companies

Advanced Micro Devices  
Bob Evans Farms  
Crown Cork and Seal  
A.G. Edwards  
First Union Corporation  
Intergraph Corporation  
J.C. Penney  
Lone Star Steak House  
Phycor  
Rite Aid

The New York Supreme Court approved a \$4 million settlement of a shareowner's lawsuit against the former officers and directors of W.R. Grace & Co. CalPERS, one of the largest shareowners of W.R. Grace, intervened in the lawsuit in 1996 and was later named lead plaintiff. Prior to our intervention, a settlement had been proposed that would have returned no money to the corporation. After our intervention, Grace adopted a number of corporate governance reforms, including the appointment of independent outside directors to serve on the company's audit, compensation, and nominating committees.

CalPERS also spearheaded an effort to obtain more than \$2.8 billion for shareowners in a securities class action lawsuit against Cendant Corporation. The settlement stemmed from financial statement irregularities at CUC International, one of Cendant's predecessors, and the CMS division of Cendant. It served as a landmark victory for CalPERS, demonstrating the important role that pension funds play as lead plaintiffs in securities actions.

Our achievements were rewarded later when Ernst & Young, LLP agreed to pay CalPERS and other shareholders \$335 million to settle a securities class action lawsuit on behalf of Cendant Corporate shareholders. The settlement raised the amount paid to Cendant shareholders to more than \$3 billion.

And once again, we issued our "Focus List" of Corporate America's poorest performers. The companies included Advanced Micro Devices, Bob Evans Farms, Crown Cork and Seal, A.G. Edwards, First Union Corporation, Intergraph Corporation, Lone Star Steakhouse & Saloon, J.C. Penney Company, Phycor, and Rite Aid. CalPERS pushed a variety of corporate governance improvements at these companies in an effort to generate better returns and long-term performance. Several companies agreed to corporate governance changes, including electing independent directors, appointing lead independent directors, and commitments to make director compensation more competitive.

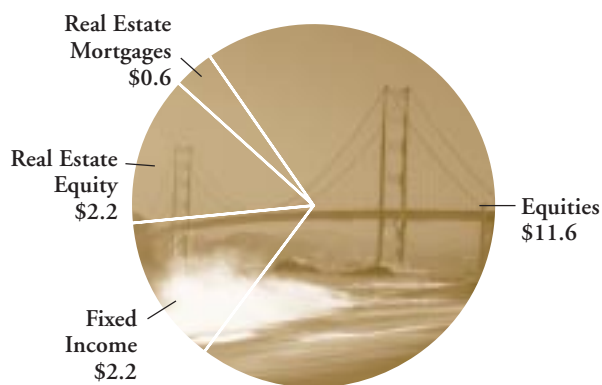
## CALIFORNIA INVESTMENTS

California has the largest and most diverse economy in the nation. With strengths in high-tech manufacturing and services, foreign trade, and professional services, California has positioned itself as a leader in advanced telecommunications, multimedia, biotechnology, and Internet equipment and software. California is also strong in entertainment and tourism, fashion design, and agriculture.

The State has remained the industrial powerhouse of the West, providing almost 13 percent of the U.S. Gross State Product (GSP) and generating more goods and services than all of the other western states combined. California has the largest State economy in the U.S., with an estimated GSP of \$1.165 trillion in 1999. The California economy has outperformed the nation as a whole over the last four years. Since 1995, the California GSP has been growing at an average annual rate of 4.6 percent, compared to 4.1 percent for the nation. Most of this growth has been attributed to high-tech

### CalPERS CALIFORNIA INVESTMENTS

Dollars in Billions



manufacturing and services, financial services, and the resurgence of the real estate market.

It is no surprise, then, that California would be appropriately represented in our investment portfolio. CalPERS investments are a critical part of the economic fabric of California.

Our California investment record extends back to the early 1980's, with investments in real estate mortgages and real estate equity. They have grown steadily over the last five years. As of June 30, 2000, approximately 9 percent of our \$172.5 billion Fund was invested or committed for investment in California.

We invest nearly \$12 billion in companies based in California—from blue chip corporations on the New York Stock Exchange to start-up firms in South Central Los Angeles and the Silicon Valley. Our fixed income assets, largely held in corporate bonds, total approximately \$2.2 billion. We are one of the State's largest real estate developers, financing more than \$2.8 billion worth of single family homes and general real estate holdings. In fact, CalPERS has built more than 21,000 homes and developed 8,000 lots for single family homes. We've dedicated \$900 million to the Program and partner with seven real estate firms that work with California developers. And, since its start in 1989, the Program has provided more than \$7 billion in mortgages to nearly 54,000 California families.

Recently, we expanded our real estate program to include California urban real estate initiatives. We have committed more than \$1 billion to initiatives that include urban development and redevelopment in cities throughout California.







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